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Congress of the United States
U.S. House of Representatives
COMMITTEE ON WAYS AND MEANS

WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

July 28, 2006

The Honorable Mark Everson
Commissioner, Internal Revenue Service
1111 Constitution Avenue, NW
Washington, D.C. 20224

Dear Commissioner Everson:

Thank you for having your staff provide us with information about the plans of the Internal Revenue Service (IRS) to eliminate, at the end of September, the positions of 157 tax attorneys responsible for auditing estate and gift tax returns. We continue to have concerns about the IRS's plans to reduce audit resources in the area.

Of course, you are aware of recent articles in the New York Times raising questions about the IRS's plans. We believe that legitimate concerns have been raised in the press and that more information needs to be released to the public.

It was helpful to learn that the IRS audit coverage rate for gross estates of \$5 million or more is 28 percent. In isolation the figure does not address the fundamental question of whether the IRS will have the resources necessary to maintain compliance with the estate tax.

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These larger estates will remain subject to the tax under all reform proposals. Clearly, these estates, because of their size and complexity, require greater amounts of audit resources. Based on our discussion, IRS currently dedicates a higher allocation of staffing resources to audits of these larger estates. Therefore, a simple audit rate does not adequately answer the question of whether the proposed staffing reductions will permit current enforcement activities to continue with respect to the large estates.

It is true that the scheduled increases in the estate tax exemption will reduce the number of estates subject to the tax in the future. However, filing deadlines delay the impact of those exemption increases when it comes to the need for audit resources.

We request additional information as follows. First, we would like to know how the proposed reduction in audit staff will impact audits of previously filed returns. In addition, we would like information as to how current audit resources are allocated among the following categories of estates: estates with assets between \$2 million-\$3.5 million (\$2 million being the current exemption), estates with assets between \$3.5 million-\$5 million (\$3.5 million being the exemption that will take effect in 2009), estates with assets between \$5 million-\$20 million, and estates with assets over \$20 million. For these types of returns, how much in additional taxes is expected as a result of such audits, and how does it compare to prior years?

Providing us, as well as the public and press, with factual information and the related data analysis underlying the IRS's decision to reduce estate tax attorneys by half in the very near future would assist us all in understanding the IRS's plan and determining whether a reduction in IRS staffing is appropriate.


Given the annual tax gap of over \$290 billion, and our shared concern that all taxpayers, particularly the wealthiest in America,

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comply with the tax laws, we believe that the IRS should continue its aggressive presence in the estate and gift tax area. Even IRS officials emphasize that estate tax lawyers are the most productive tax law enforcement personnel at the IRS—averaging \$2,200 in additional taxes for each hour they work.

We know that you share our concerns. We assume that you have this information readily available and that it served as a basis for your proposing to cut estate tax staffing in half. Thank you for your assistance.

Sincerely,



John Lewis
Ranking Member
Subcommittee on Oversight



Earl Pomeroy
Subcommittee Member